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Hong Kong

U.S. Wine Exports Poised To Set New Record In Wake Of Abolishment of Wine Tax

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Report Highlights:

The Hong Kong Government (HKG) abolished its 40% excise tax on wine on February 27, 2008. This is the second major reduction since the HKG reduced the excise tax on wine from 80% to 40% in February 2007. The reduction is expected to stimulate Hong Kong into the region's wine hub, presenting an excellent market opportunity for U.S. wine exports. The abolishment resulted in some retailers announcing price reductions immediately. The new policy, as well as positive economic growth, and fast-paced expansion of its neighbors, China and Macau, are expected to stimulate Hong Kong's imports of U.S. wine by over 40% this year. Given the weakened U.S. dollar, and anticipated increase in tourists as a result of the Olympic Games in the fall, traders expect overall imports of wine from the world will nearly double to US\$400 million in 2008, compared to \$204 million in 2007. A similar surge in trade was realized during the last reduction of the wine tax, when Hong Kong's total wine imports reached US\$204 million and 23 million liters in 2007, an increase of 91% in value and 27% in volume respectively over 2006. France is the leading supplier with a market share of 47%, followed by Australia at 15% and the U.S. with a market share of 5% in 2007 (representing US\$9 million in value and 3.6 million liters in volume). Some traders report plans for movement of high value stocks from around the world to Hong Kong in the coming months, as well as rare wines for auctions, which are expected to lend to the attractiveness for official and unofficial transshipments.

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SECTION I. MARKET OVERVIEW

Summary

- The decision of the Hong Kong Government (HKG) to abolish the excise tax on wine was significantly driven by its surplus budget, coordinated lobbying efforts; and the lack of consumer group objections.
- HKG enjoyed a high budget surplus in 2007 of over US\$14.7 billion dollars¹. HKG did reduce the excise tax on wine from 80% to 40% in February 2007, after advocates, such as trade, tourism, and Consulate General representatives lobbied together to convince the HKG and legislative members to do so. They also argued that the tax on alcoholic beverages should be abolished to boost economic activities, increase employment and promote the development of Hong Kong as the region's wine exhibition, trading and logistics centre.
- HKG announced the abolishment of the excise tax on wine on February 27, 2008², with the objectives of not only boosting tourism, but also to develop Hong Kong as the region's wine distribution center.
- The trade welcomes the new policy which will increase wine sales as most retailers are planning to pass tax savings on to consumers and thus reducing retail prices by 20-30% after the current stocks are depleted.
- Some traders of high value wine have indicated that this abolishment will drive them to bring in more wine to Hong Kong from their stocks in London. The auction house Bonhams is working on a fine wine auction in Hong Kong in April and is planning for a second auction in October, with the objective to have quarterly auctions in Hong Kong. U.S. wine merchant Acker Merrall & Condit has already scheduled an auction at the Island Shangri-La hotel on May 31, 2008³.
- Thanks to the last reduction of wine tax, Hong Kong wine imports enjoyed a good year in 2007, with total import value at US\$204 million and volume at 23 million liters, representing a significant growth of 91% and 27% respectively over 2006 (please refer to Table 1).
- As an important regional distribution center, Hong Kong re-exported 36% of its wine imports (US\$74 million) and retained 64% (US\$131 million) for local consumption. The abolishment of the wine tax will stimulate Hong Kong's wine imports, which are expected to reach US\$400 million and 30 million liters by volume in 2008.

¹ Budget Speech on February 27, 2008, Financial Secretary, Hong Kong Government (US\$1=HK\$7.8)

² Budget Speech on February 27, 2008, Financial Secretary, Hong Kong Government

³ Source: South China Morning Post (February 28, 2008)

- Hong Kong's imports of U.S. wine already reached a record high at US\$9 million in value and 3.6 million liters in volume in 2007, representing a growth of 26% for value and 15% for volume over 2006. The growth in imports of U.S wine last year was due in part to depreciation of the U.S. dollar, increased wine consumption driven by the tax reduction (in 2007), and increased sophistication and affluence of Hong Kong consumers.
- Supported by the new tax-free wine policy, continued economic growth, and the fast-paced expansion among its China and Macau neighbors, Hong Kong's ambition to develop into the region's wine hub presents an excellent market opportunity for U.S. wine exports, which are expected to grow by over 40% and set another new record in 2008.

Table1: Hong Kong Imports of Wine⁴

Rank	Suppliers	Value (US\$ Million)	2004	2005	2006	2007	Share (2007)	Growth 07/06
	World	Gross Imports	79	89	107	204		91%
		Re-exports	14	19	29	74		158%
		Retained Imports	65	70	78	131	100%	67%
1	France	Gross Imports	43	46	56	116		108%
		Re-exports	9	13	20	55		171%
		Retained Imports	34	33	36	61	47%	72%
2	Australia	Gross Imports	12	15	17	26		55%
		Re-exports	2	3	3	6		108%
		Retained Imports	11	12	13	19	15%	42%
3	U.S.	Gross Imports	5	6	7	9		26%
		Re-exports	0	1	1	2		64%
		Retained Imports	4	5	6	7	5%	18%
4	Chile	Gross Imports	4	6	7	9		33%
		Re-exports	0	0	1	2		159%
		Retained Imports	4	5	6	7	5%	16%
5	Spain	Gross Imports	1	1	2	3		51%
		Re-exports	0	0	0	0		119%
		Retained Imports	1	1	2	3	2%	46%
6	Italy	Gross Imports	4	5	5	8		49%
		Re-exports	0	1	1	1		46%
		Retained Imports	4	4	5	7	5%	50%
7	Argentina	Gross Imports	1	0	1	2		76%
		Re-exports	0	0	0	0		36%
		Retained Imports	0	0	1	2	1%	84%
8	New Zealand	Gross Imports	2	2	2	4		49%
		Re-exports	0	0	0	0		108%
		Retained Imports	1	2	2	3	3%	45%
9	South Africa	Gross Imports	1	1	1	2		65%
		Re-exports	0	0	0	0		249%
		Retained Imports	1	1	1	1	1%	45%
10	U.K.	Gross Imports	4	4	5	15		224%
		Re-exports	1	0	1	3		438%
		Retained Imports	3	4	4	12	9%	195%
	From Top 10 Suppliers	Gross Imports	77	86	103	193		88%
		Re-exports	13	18	27	71		160%
		Retained Imports	64	68	76	122	94%	62%
	From Rest of World	Gross Imports	3	3	4	11		174%
		Re-exports	1	1	1	3		116%
		Retained Imports	1	2	3	8	6%	202%

(Source: Calculations based on World Trade Atlas data)

⁴ The HS code for wine referred to in this report is 2204 (Wine of Fresh Grapes)

Table1: Hong Kong Imports of Wine (Cont')

Rank	Suppliers	Quantity (Liters)	2004	2005	2006	2007	Share (2007)	Growth 07/06
	World	Gross Imports	13,440,067	15,123,625	18,351,056	23,390,854		27%
		Re-exports	1,695,169	2,046,279	3,617,844	5,771,352		60%
		Retained Imports	11,744,898	13,077,346	14,733,212	17,619,502	100%	20%
1	France	Gross Imports	5,282,406	5,208,417	5,758,670	7,261,984		26%
		Re-exports	726,738	838,122	1,211,292	1,999,551		65%
		Retained Imports	4,555,668	4,370,295	4,547,378	5,262,433	30%	16%
2	Australia	Gross Imports	2,550,286	3,161,906	3,557,907	4,964,557		40%
		Re-exports	256,811	362,560	441,403	895,429		103%
		Retained Imports	2,293,475	2,799,346	3,116,504	4,069,128	23%	31%
3	U.S.	Gross Imports	1,336,994	1,782,495	3,133,191	3,632,525		16%
		Re-exports	93,665	235,178	1,404,550	1,872,646		33%
		Retained Imports	1,243,329	1,547,317	1,728,641	1,759,879	10%	2%
4	Chile	Gross Imports	1,264,747	1,771,510	2,177,710	2,675,371		23%
		Re-exports	58,307	106,748	200,142	408,626		104%
		Retained Imports	1,206,440	1,664,762	1,977,568	2,266,745	13%	15%
5	Spain	Gross Imports	748,574	812,591	1,158,996	1,376,293		19%
		Re-exports	9,942	41,782	42,864	70,745		65%
		Retained Imports	738,632	770,809	1,116,132	1,305,548	7%	17%
6	Italy	Gross Imports	652,000	654,062	728,759	1,012,607		39%
		Re-exports	38,511	59,850	96,198	139,129		45%
		Retained Imports	613,489	594,212	632,561	873,478	5%	38%
7	Argentina	Gross Imports	184,436	148,354	400,901	671,737		68%
		Re-exports	9,438	22,904	40,039	72,941		82%
		Retained Imports	174,998	125,450	360,862	598,796	3%	66%
8	New Zealand	Gross Imports	219,444	247,274	379,177	487,587		29%
		Re-exports	5,937	9,429	19,966	41,503		108%
		Retained Imports	213,507	237,845	359,211	446,084	3%	24%
9	South Africa	Gross Imports	446,176	429,054	282,913	382,663		35%
		Re-exports	15,096	13,561	15,334	66,517		334%
		Retained Imports	431,080	415,493	267,579	316,146	2%	18%
10	U.K.	Gross Imports	144,384	181,255	165,868	201,884		22%
		Re-exports	13,186	12,776	14,796	16,319		10%
		Retained Imports	131,198	168,479	151,072	185,565	1%	23%
	From Top 10 Suppliers	Gross Imports	12,829,447	14,396,918	17,744,092	22,667,208		28%
		Re-exports	1,227,631	1,702,910	3,486,584	5,583,406		60%
		Retained Imports	11,601,816	12,694,008	14,257,508	17,083,802	97%	20%
	From Rest of World	Gross Imports	610,620	726,707	606,964	723,646		19%
		Re-exports	467,538	343,369	131,260	187,946		43%
		Retained Imports	143,082	383,338	475,704	535,700	3%	13%

(Source: Calculations based on World Trade Atlas data)

- Prior to the last reduction of wine tax in February 2007, Hong Kong imposed a high excise tax of 80% on wine imports. That has encouraged the market entry of lower-price wines, as shown in the Table 2 below:

Table 2: Average Cost of Hong Kong Retained Wine Imports (US\$ per Liter)

Suppliers	2001	2002	2003	2004	2005	2006	2007	Growth 07/06
World	5.7	5.1	4.9	5.6	5.4	5.3	7.4	39%
France	6.6	6.1	6.0	7.4	7.5	7.9	11.7	49%
Australia	4.1	4.2	4.3	4.7	4.5	4.3	4.7	9%
United States	6.5	4.1	3.6	3.3	3.4	3.4	3.9	16%
Chile	3.9	3.5	3.4	3.1	3.1	2.9	3.0	1%
Spain	3.1	2.6	1.8	1.8	1.6	1.8	2.2	25%
Italy	5.7	5.3	6.1	6.2	7.0	7.1	7.8	9%
Argentina	3.9	4.3	3.8	2.7	2.8	2.7	3.0	11%
New Zealand	5.3	5.8	6.2	6.9	6.4	6.4	7.5	17%
South Africa	4.4	2.6	2.0	2.6	2.7	3.2	3.9	22%
U.K.	10.4	28.7	25.1	25.1	24.4	27.3	65.5	140%
Average of Top 10 Suppliers	5.7	5.2	5.0	5.5	5.4	5.3	7.2	35%
Average from Rest of World	4.1	3.4	3.3	9.7	5.6	5.8	15.5	168%

(Source: Calculations based on World Trade Atlas data)

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS⁵

Consumption Patterns Driving the Market

- Hong Kong consumers are becoming much more sophisticated when it comes to wine. Generally they believe that drinking about two glasses of wine a day is beneficial to health and that is a major influence on the boom of the wine market in Hong Kong.
- Local consumers prefer red wine to white wine⁶ because they like the flavor of the wine, the color of the wine and more perceived health benefits associated with drinking red wine. In 2007, retained imports of red wine amounted to US\$102.9 million and that of white wine were US\$13.7 million⁷, representing a ratio of 7.5 to 1.
- Cabernet Sauvignon, Merlot and Shiraz are the three most popular grape varieties for red wine in Hong Kong. Together they accounted for around 80% of total volume sales. Of these, Cabernet Sauvignon is the most popular, accounting for around 50% of total red wine sales.
- For white wine, Chardonnay is the most popular grape type, accounting for over 60% of total white wine sales.

Sales Channels

- The majority of the wine in Hong Kong is sold at retail markets, such as supermarkets, specialty stores and convenience stores. Approximately 58% of the wine, in terms of volume, and 41% in value terms, is sold in those outlets. The remainder is primarily sold at the HRI level. Generally, wine mark-ups are high in the food service market, resulting in prices being three to four times higher than in the retail market.

Retail Market

- Supermarkets account for the greatest share of wine volume sales among retailers, accounting for 49% of all sales. The two largest supermarket chains – Wellcome Supermarkets (246 outlets) and ParknShop (230 outlets), because of their large turnovers, usually import wine directly to reduce middlemen's mark-ups. Therefore they can price their wines more competitively to their customers, who are generally more price-conscious and rank wine quality, country-of-origin and age as secondary for importance in selection.
- Wine specialist stores account for 35% of wine volume sales in the retail market. Watson's Wine Cellar is largest wine specialist in Hong Kong with 13 outlets in busy locations. Specialist stores serve a consumer group who pay more attention to wine quality, country of origin, and age, rather than just price. Wine specialist stores offer most opportunities for moderate and high price point U.S. wine.

⁵ ATO Research Reports, Euromonitor and interviews with traders

⁶ The HS codes for red wine and white wine referred to in this report are 22042191 and 22042192 respectively

⁷ Source: World Trade Atlas statistics

Food Service Market

- Restaurants in Hong Kong normally charge a high mark-up on wine consumption. Restaurants that allow customers to bring their own wine charge corkage fees⁸ around HK\$200-\$300 per bottle (approximately =US\$25-\$38 per bottle). Whether wine sold in restaurants have a low, medium or high price point depends on the food and target customers of the restaurant. As is the case almost anywhere, the higher-end the restaurant, the more premium the wine it will serve and vice versa.

Table 3: Wine at food service outlets – relationship between price and image

Low-end	HK\$25- 50 (general bars/restaurants/3 star hotels)
Low-end	HK\$40 - 70 (up market restaurants/5 star hotels)
Medium-end	HK\$60 – 150
High-end	HK\$150 up

(Source: Interview with an experienced local wine importer/trader (HK\$7.8=US\$1))

- The high mark-up for wine sales and their high corkage fees on-premise has hindered consumption of some high-end wines through this channel. However, with the abolishment of the wine tax beginning on February 27, 2008, many restaurants and hotels are expected to launch more wine-tasting classes and special promotions. This is expected to supplement the sales promotions at the retail market to spread of the wine appreciation culture and increase the demand for more fine wines. U.S. suppliers of high price point wines should expect more opportunities and target this market segment.

Competition

- French wine still dominates the market, accounting for 47% of total retained wine imports value and 30% of import volume in 2007 (please refer to Table 1). However, New World wines, including those from the U.S., Australia, Chile and Spain have captured market share from French wine, which enjoyed a higher market share of 52% in value and 44% in volume in 2001⁹.
- The growth of New World wines was partially attributed to the boom of the wine appreciation culture and consumers beginning to realize that they can buy high quality New World wine at competitive prices. U.S. wine is well known in Hong Kong for its fine quality and yet much cheaper price, thanks in part to the depreciation of U.S. dollars and aggressive promotional efforts by some U.S. wine distributors in the market.
- Competitors of U.S. wine have aggressive marketing campaigns, as they dominate in-store promotion areas and feature large pavilions at major trade shows. These vehicles provide them with great exposure to Hong Kong and emerging consumers in the region.

⁸ Source: Interviews with HRI traders

⁹ Source: World Trade Atlas statistics

Entry and Marketing Strategy

For new-to-market wineries that wish to enter the Hong Kong market, the following approaches are recommended:

- Exhibiting in a local trade show: There are trade shows in Hong Kong and Macau for U.S. wine exporters to showcase their high quality wine to buyers from Hong Kong, Macau, China and the region. The upcoming F&B trade shows in Hong Kong/Macau in 2008 include:

Vinexpo Asia Pacific (in Hong Kong)

Date: May 27 – 29, 2008

Website: <http://www.vinexpo.com/en/asia-pacific-2008/>

Restaurant and Bar Show (in Hong Kong)

Date: September 9 – 11, 2008

Website: <http://www.restaurantandbarhk.com/>

Wine and Gourmet Asia (in Macau)

Date: November 5 – 7, 2008

Website: <http://www.wineandgourmetasia.com/>

- One-on-one meetings with potential importers: Most local importers are interested in meeting new-to-market exporters in a private environment. A list of local wine importers is available from the Agricultural Trade Office.

SECTION III. COSTS AND PRICES

Tax and Markups

- The following tables illustrates the effect of the wine tax and mark-ups¹⁰ on the retail price of a bottle of wine, as HKG excise tax on wine was reduced from 80% to 40% on February 2007, and finally to zero on February 27, 2008:

Table 4: Example of the Effect of the wine excise tax and mark-ups on the retail price of a bottle of wine (With 40% wine tax)

A	Ex-factory Cost (in US\$)	Before excise tax	US\$10.0
B	Wine tax	A x 40%	US\$4.0
C	Transportation	Around \$1.1 per bottle	US\$1.1
D	Importer & Distributor's markup	(A+B+C) x 35%	US\$5.3
E	Retailer's markup	(A+B+C+D) x 35%	US\$7.1
F	Promotional expenses	(A+B+C+D+E) x 12.5%	US\$3.4
	Retail Price of a bottle (75 CI) of wine (in US\$)		US\$30.9

Table 5: Example of the Effect of the wine excise tax and mark-ups on the retail price of a bottle of wine (With NO wine tax)

A	Ex-factory Cost (in US\$)	Before excise tax	US\$10.0
B	Transportation	Around \$1.1 per bottle	US\$1.1
C	Importer & Distributor's markup	(A+B) x 35%	US\$3.9
D	Retailer's markup	(A+B+C) x 35%	US\$5.3
E	Promotional expenses	(A+B+C+D) x 12.5%	US\$2.5
	Retail Price of a bottle (75 CI) of wine (in US\$)		US\$22.8

¹⁰ Source: interviews with wine importers and traders, the markups are indicative only as they vary from one product to another and also subject to relative bargaining powers among parties in the supply chain.

- Comparing Table 4 and 5, it can be seen that the abolishment of the 40% wine tax will lead to an average of 26% reduction in retail price (from US\$30.9 to US\$22.8). This is similar to what the trade reportedly expects between 20-30% after the current stocks are depleted by April 2008.

Price Segments¹¹

- Red wine is typically categorized into five different price segments as follows:

Price Segments (per 75 Cl bottle)	% of Total Retail Sales Volume
Under HK\$100	29
HK\$100.01–130	28.5
HK\$130.01–150	20.0
HK\$150.01- 250	14.0
HK\$250.01 and above	8.5
Total	100.0

- White wine is typically categorized into five different price segments as follows:

Price Segments (per 75 Cl bottle)	% of Total Retail Sales Volume
Under HK\$100	29
HK\$100.01–130	26.0
HK\$130.01–150	20.0
HK\$150.01- 200	18.5
HK\$200.01 and above	6.5
Total	100.0

- To see a list of popular wine available in the Hong Kong retail market and their retail prices, please visit the websites of the two leading supermarkets and the leading wine specialist:

Wellcome Supermarket <http://www.wellcome.com.hk>

ParknShop <http://www1.parknshop.com/WebShop/Home.do>

Watson's Wine Cellar <http://www.watsonswine.com/>

(Note: Retail prices of wine you can find on their websites are based in Hong Kong dollars and US\$1 equals to approximately HK\$7.8. In addition, given the abolishment of the wine tax, the retail prices are expected to drop by 20-30% from April 2008 onwards, after their current stocks are depleted.)

¹¹ ATO Research Reports, Euromonitor and interviews with wine importers (HK\$7.8=US\$1).

SECTION IV. MARKET ACCESS

- Food products can be imported to Hong Kong duty free except for cigarettes and alcoholic drinks. The taxes on alcoholic drinks are as follows¹²:

Liquor with an alcoholic strength of more than 30% by volume measured at a temperature of 20 °C	100%
Beer, liquor, other than wine, with an alcoholic strength of not more than 30% by volume measured at a temperature of 20 °C	0%
Wine	0%

- Hong Kong does not have specific labeling requirements for wine imports. For the general labeling requirements and a general guideline to Hong Kong's food import regulations, please refer to Gain Report #HK7017 or contact our office.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

- U.S. agri-food suppliers who want to gauge this opportunity to increase market shares of their products are welcomed to contact ATO Hong Kong for:
 - Market Information and Updates
 - Food Import Legislations
 - Promotional Opportunities
 - Trade Inquiries
 - Marketing Assistance

U.S. Agricultural Trade Office Hong Kong

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- The Wine Institute of California has a local representative in Hong Kong:

Wine Institute

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¹² Source: Hong Kong Customs and Excise Department